

Message Text

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ACTION EA-14

INFO OCT-01 ADP-00 AID-20 IGA-02 CIEP-02 COME-00 EB-11

FRB-02 OMB-01 TRSE-00 XMB-07 L-03 CIAE-00 INR-09

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FM AMEMBASSY JAKARTA

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C O N F I D E N T I A L JAKARTA 3165

E. O. 11652: GDS

TAGS: EFIN, ID

SUBJECT: GOI MEDIUM TERM BORROWING AND IMF STANDBY

REF : JAKARTA 2953

1. SUMMARY - IN SEPARATE MEETINGS WITH IMF AND IBRD REPS, I HAVE DISCUSSED STATUS AND OBSTACLES TO RESOLUTION OF IMF STANDBY ISSUE. PROSPECT FOR STANBY RENEWAL AGREEMENT BEFORE MAY IGGI MEETING APPEARS DIM ACCORDING IMF REP APPRAISAL. ALTHOUGH IBNU NOW APPEARS FAVORABLY DISPOSED TO DISCUSS RESOLUTION OF IMF/ IGGI DIFFICULTIES, THERE REMAINS SERIOUS COMMUNICATION GULF BETWEEN FINANCE MINISTER AND PERTAMINA' S GENERAL IBNU. I AND IBRD REP WILL MEET FINANCE MINISTER TOMORROW MORNING TO URGE UTMOST EFFORT TO COMMUNICATE WITH PERTAMINA AND RESOLVE PRESENT IMPASSE. END SUMMARY

2. ON MARCH 14 I, USAID DIRECTOR, AND E/ CM COUNSELOR MET WITH IMF REP ON STATUS OF GOI/ IMF STANDBY DISCUSSION AND RELATED DEVELOPMENTS. I REVIEWED RECENT SERIES OF DISCUSSIONS ON THE SUBJECT INVOLVING VP AGNEW, EXIM PRESIDENT KEARNS AND MYSELF WITH GOI OFFICIALS AND PERTAMINA PRESIDENT DIRECTOR GENERAL IBNU SUTOWO. I NOTED MINISTER SALIM' S RECENT CRITICISM OF INCONSISTENCIES OF US POSITION, REFERRING \$50 MILLION PROGRAM LOAN UNTIL GOI AND IMF RESOLVE DEBT CONTROL PROBLEM ON ONE HAND, WHILE
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MAKING LARGE LOAN OFFERS THROUGH EXIM TO PERTAMINA ON THE OTHER HAND. I EXPRESSED VIEW THAT, BECAUSE OF MAJOR RESOURCE PROJECTS NOW ENDING, DIFFERENT APPROACH AND DIMENSION TO QUESTION OF STANDBY CEILINGS WOULD SEEM NECESSARY. SOME MECHANISM IS NEEDED, I SUGGESTED, WHICH WOULD ENABLE BOTH GOVERNMENT, IMF AND DONORS TO BE AWARE OF MAGNITUDE OF NON- CONCESSIONAL BORROWING PLANNED BY PERTAMINA AND ECONOMIC VIABILITY OF PROJECTS TO BE UNDERTAKEN WITH SUCH BORROWING.

3. IMF REP EMPHASIZED THAT FUND NEEDS INFORMATION ON ADDITIONAL PERTAMINA BORROWINGS OF WHICH FUND AWARE BUT GOI HAS NOT YET REPORTED. HE SAID IMF MISSION LEFT INDONESIA WITHOUT RECEIVING REQUEST FOR STANDBY RENEWAL OR DISCUSSION OF PERFORMANCE CRITERIA WHICH GOI WOULD UNDERTAKE TO MEET. IMF REP BELIEVES GOI WAS NOT YET IN POSITION TO DISCUSS THIS MATTER, WHICH NOW POSTPONED FOR LATER DISCUSSION IN WASHINGTON. IMF ALSO NEEDS MORE COMPLETE DATA ON DRAWINGS BY PERTAMINA, AND BELIEVES ESSENTIAL THAT MECHANISM BE ESTABLISHED FOR EVALUATION OF NEW BORROWING NEEDS. HE ENVISAGED POSSIBILITY OF FEASIBILITY STUDIES CONDUCTED BY PERTAMINA BOARD OF SUPERVISORS INDEPENDENTLY, OR JOINTLY BY BOARD AND PERTAMINA.

4. IMF REP INDICATED FUND WOULD HAVE DIFFICULTY WITH FORMULA FOR NEW STANDBY CEILING WHICH WOULD INVOLVE CEILING ADJUSTMENTS DURING STANDBY YEAR AS FEASIBILITY OF MAJOR PROJECTS IS ESTABLISHED, BUT DID NOT RULE OUT SUCH POSSIBILITY ALL TOGETHER. TO OUR SURPRISE, HE WAS VERY DOUBTFUL THAT AGREEMENT ON STANDBY RENEWAL COULD BE REACHED PRIOR TO MAY IGGI MEETINGS, RATHER HE HAS SUGGESTED GOI DETERMINE WHAT ASSURANCES DONNORS MIGHT SEEK

AND FIND ACCEPTABLE AT IGGI MEETING IN ABSENCE OF STANDBY RENEWAL. IMF REPS UNDERSTANDS FINANCE MINISTER WARDHANA HAS IN MIND ISSUING REGULATIONS TO IMPLEMENT GOVERNMENT DECREE NO. 59 OF OCTOBER 12, 1972 UYWHICH PROHIBITS PUBLIC SECTOR BORROWING WITHOUT PRIOR FINANCE MINISHXY APPROVAL). HE EXPECTS FINANCE MINISTRY MAY INCLUDE PENALTIES FOR NON- COMPLIANCE IN REGULATIONS. HE BELIEVES ISSUANCE OF THESE REGULATIONS WOULD BE IMPORTANT
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STEP TOWARD ESTABLISHMENT EFFECTIVE BORROWING CONTROLS.

5. USAID DIRECTOR POINTED OUT APPARENT MISTAKEN IMPRESSION BY GOI THAT IMF UNWILLING CONSIDER STANDBY

CEILING SUBSTANTIALLY ABOVE PRESENT LEVEL. HE URGED IMF TO DISABUSE GOI OF THIS IMPRESSION AND MAKE GOI UNDERSTAND THAT WHERE MAJOR PROJECT JUSTIFICATION WARRANTED, IMF PREPARED TO CONSIDER QUANTUM CHANGE IN CEILING.

6. ON MARCH 15, USAID DIRECTOR, E/ CM COUNSELOR AND I DISCUSSED SAME MATTERS WITH IBRD REP DAVID GORDON AND I REITERATED MY CONCLUSION THAT SITUATION CALLS FOR FOLLOWING STEPS: GOI SHOULD PRESENT TO IMF (A) TOTAL BORROWING REQUIREMENTS, INCLUDING CONCESSIONAL AND MEDIUM TERM BORROWING NEEDS; (B) PROFILE OF EXPECTED RETURNS FROM PROJECTS WHICH SELF- FINANCING IN MEDIUM TERM AND SUITABLE FOR COMMERCIAL FINANCING. GOI SHOULD ALSO ESTABLISH SYSTEM TO SCRUTINIZE AND PROVIDE ASSURANCES TO IMF AND IGGI THAT ADEQUATE JUSTIFICATION EXISTS FOR MEDIUM TERM BORROWING TO CARRY OUT THESE PROJECTS. I NOTED MY FEELING THAT MOST URGENT NEED AT THIS POINT IS TO BRING ABOUT COMMUNICATION BETWEEN TECHNOCRATS AND GENERAL IBNU -- AND SAID I TAKE SOME ENCOURAGEMENT FROM GENERAL IBNU' S APPARENT RECOGNITION OF NEED FOR PERTAMINA TO COME TO TERMS WITH IMF AND IGGI CONSIDERATIONS.

7. GORDON AGREED WITH MY ASSESSMENT OF URGENCY AND INDICATED IBRD WOULD BE WILLING TO PROVIDE 4 OR 5 FINANCIAL ANALYSTS TO ASSIST GOI IN ESTABLISHING SUITABLE MECHANISM FOR PROJECT EVALUATION. FIRST, HOWEVER CONCEPT MUST BE ACCEPTED BY GOI AND REQUEST FOR ASSISTANCE MADE, HE NOTED.

8. IN LIGHT OF POSSIBLY FAVORABLE IBNU ATTITUDE, VERY LIMITED TIME BEFORE IGGI MEETING, AND DEPARTURE OF FINANCE MINISTER WARDHANA NEXT WEEK FOR WASHINGTON, WE AGREED ON DESIRABILITY OF GETTING IBNU AND TECHNOCRATS TO SIT DOWN TOGETHER AND DISCUSS PROBLEM AS SOON AS POSSIBLE. I HAVE APPOINTMENT WITH MINISTERS WARDHANA AND WIDJOJO FOR TOMORROW MORNING TO RAISE THIS MATTER
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URGENTLY WITH THEM, IN COMPANY WITH GORDON, USAID DIRECTOR AND E/ CM COUNSELOR.
GALBRAITH

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